

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 SP-02 USIA-15 AID-05

EB-07 NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /133 W

----- 068795

O R 011757Z DEC 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 8326

I FO RUFHOL/AMEMBASSY BONN 1520

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 19404

DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD NOV. 25-DEC. 1

1. THIS WEEK (11/24-11/30) IN THE GILT MARKET BEGAN SLOW
LY THEN DECELERATED. THE NEW 800 MILLION POUND GILT IS-
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SUE, THE EXCHEQUER 13 PERCENT 1980, ATTRACTED OFFERS OF

100 MILLION POUNDS WHEN THE TREASURY ACCEPTED BIDS ON NOVEMBER 24. MARKET SOURCES SUGGEST THAT NO SUBSEQUENT SALES FROM THE GOVERNMENT BROKER HAVE BEEN MADE. IN OTHER TAPS, THE FINAL PUSH NECESSARY TO EXHAUST THE LONG TAP, THE 15-1/4 PERCENT 1996, DID NOT MATERIALIZE. THE SCARCITY OF SHORT TERM MONEY OCCASIONED BY THE LARGE SALE OF GILTS HAS EASED WITH THE SUBSTANTIAL BANK OF ENGLAND SUPPORT GIVEN THE MARKET LAST WEEK AND EARLY THIS WEEK, AS WELL WITH THE ACCELERATED RATE SUPPORT GRANT DISBURSEMENT REPORTED LAST WEEK.

2. HOUSING SUBSIDIES. AS PART OF THE CURRENT REVIEW OF PUBLIC EXPENDITURE WHICH CULMINATES IN THE ISSUING OF THE ANNUAL WHITE PAPER, HMTREASURY IS REPORTED TO BE ARGUING STRONGLY IN FAVOR OF SIGNIFICANT REDUCTION IN THE LEVEL OF RENT SUBSIDIES FOR PUBLIC HOUSING. THESE CURRENTLY AMOUNT TO 1.4 BILLION POUNDS (1975 SURVEY PRICES) AND REPRESENTS OVER A THIRD OF ALL PUBLIC EXPENDITURE ON HOUSING. THIS LEVEL OF SUBSIDY ALLOWS TENANTS IN PUBLIC HOUSING TO BE RELIEVED OF 57 PERCENT OF THE ACTUAL RENT CHARGE. UNDER EXISTING PROPOSALS, IT HAD BEEN INTENDED TO REDUCE THIS FIGURE TO 50 PERCENT OVER A 5-YEAR PERIOD. HMTREASURY IS PROBABLY PRESSING FOR A FIGURE OF UNDER 50 PERCENT TO BE ACHIEVED IN LESS THAN 5 YEARS. THIS COULD PRODUCE SAVINGS OF SEVERAL HUNDRED MILLION POUNDS. HOWEVER, SINCE HOUSING SUBSIDIES ARE AN IMPORTANT ELEMENT IN THE SOCIAL CONTRACT BETWEEN THE GOVERNMENT AND THE TRADES UNION CONGRESS, THERE WILL BE STRONG OPPOSITION TO CUTS.

3. EXCHANGE RATE AND GOLD

DATE	EFFECTIVE		GOLD
	EXCHANGE RATE (\$)	DEPRECIATION (PERCENT)	
11/24	1.6483	45.6	130-3/4
11/25	1.6460	45.6	130-3/4
11/26	1.6485	45.5	130-1/2
11/29	1.6485	45.6	129-3/4

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11/30 1.6525 45.3 130-1/2
CHANGE 11/23-11/30 UP 0.0077 NARROWED 0.1 DN.2-1/4

4. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
11/24	1.70	4.65	8.10
11/25	1.52	4.52	8.15
11/26	1.55	4.50	8.19

11/29	1.70	4.47	8.15
11/30	1.62	4.45	8.15

CHANGE 11/23-11/30 NAR.0.08 NAR.0.10 WIDN.0.15
(ALL FIGURES IN CENTS)

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DEPT PASS FRB

5. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
11/24	4-5/8	5-1/8	5-3/8
11/25	4-7/8	5-3/8	5-1/2
11/26	5-1/8	5-1/2	5-1/2
11/29	5	5-1/4	5-1/2
11/30	4-7/8	5-1/8	5-3/8

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CHANGE 11/23-11/30 UP 3/8 UNCHANGED UP 1/4

6. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
11/24	9-5/32
11/25	9
11/26	9-11/16
11/29	9-13/16
11/30	9-7/8

CHANGE 11/23-11/30 UP 9/32

7. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTH
11/24	15-1/8	14-21/32	13-7/8
11/25	15-3/32	14-5/8	14-1/8
11/26	15	14-39/64	14-1/16
11/29	15	14-43/64	14-1/16
11/30	14-61/64	14-31/32	14-1/16

CHANGE 11/23-11ZP DN. 11/64 UP 1/32 UP 9/32

8. THE MINIMUM LENDING RATE REMAINED AT 14-3/4 PERCENT AT FRIDAY'S WEEKLY TREASURY BILL AUCTION. THE TREASURY BILL RATE ROSE BY 0.0314 PERCENT TO 14.0342 PERCENT, AS THE 500 MILLION POUNDS TENDERED ATTRACTED BIDS OF 1160.52 MILLION POUNDS. THIS FRIDAY 400 MILLION POUNDS WILL BE OFFERED AS 600 MILLION POUNDS MATURE.

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Disposition Approved on Date:
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Disposition Event:
Disposition History: n/a
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Margaret P. Grafeld
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EO Systematic Review
04 MAY 2006

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